

Financial Planning Academics Forum

Submission on ASIC Consultation Papers 212 and 215

1.0 Introduction and Scope

This document provides the collective view of the Financial Planning Academics Forum (FPAF) on the Australian Securities and Investments Commission's (ASIC) proposals for changes to the training of financial product advisers and the assessment and approval of training courses as presented in consultation papers CP212 and CP215.

The focus on our comments in this submission relates to these proposals as they pertain to new entrants to the industry, except where specifically noted. It is our overall view that the parts of these standards that relate to existing advisers do not adequately deal with the segmentation and diversity in the training, professional development, experience and professional framework subscribed to by advisers in the advice community and therefore require further development and consultation with the sector.

In relation to new entrants, overall we argue that the standards must be increased and expanded, however approaches to this should build on existing progress made by education institutions and professional associations rather than create a parallel or additional set of standards. Indeed, we believe all stakeholders would benefit from a single, robust and consistent pathway to the profession of financial advice. In this regard, we note the work done by the Financial Planning Education Council (FPEC) to develop a degree level curriculum and accreditation framework that greatly exceeds the RG146 framework in terms of underpinning knowledge and skills, and financial planning specific skills and knowledge. Furthermore, this is currently already being offered by a range of higher education institutions with four accredited universities and approximately a dozen others who are in the process of being accredited.¹ Hence, this framework is already largely in place. We therefore suggest ASIC considers working with this framework.

2.0 CP 212

This section is presented in two parts; first a section with general views and comments on the paper; and second a set of specific comments. The end of the paper contains a set of recommendations.

2.1 General Comments

Overall we support the move to higher standards of education for new entrants to the financial planning industry. Given the ever increasing complexity of the financial system, markets, products and behavioral issues that influence the advice process (not to mention concerns over financial illiteracy) it is clear that it is a complex profession that requires highly educated and skilled professionals. We also note the

¹ We note here that we refer to substantial programs in financial planning/advice and not degrees in allied areas with one or two subjects in financial planning.

evidence that the consultation paper refers to in terms of the Shadow Shopper, feedback during prior consultations, the CTA and general feedback that the level, volume and standard of training in many education offerings that meet RG146 requirements is simply insufficient for this complexity.

We further note the move towards a profession that is evident in much of the financial planning industry and aims to improve the quality of advice and consumer confidence in the advice process and industry more broadly. We argue that the literature on professions is clear in that high educational barriers to entry is one of the central tenants of a profession and related to other tenants such as establishing a body of knowledge, establishing a professional culture and obtaining community sanction for the profession (Baker, 2013). On this basis alone we contend that moving from a framework that can be operationalised as short online 2-3 week courses to a substantive degree level program with a robust framework of underpinning knowledge, generic skills, specific skills and specific knowledge is essential for both ASIC and the industry in achieving the professionalisation objective.

In relation to new entrants, given this framework already exists within higher education programs across the country and in various modes (including online,) we see no reason why the 2019 timeframe cannot be implemented or even shortened. This is further supported by the rigorous accreditation processes that the FPEC has already put in place.

In relation to the move to AQF level 7, we concur that the threshold learning outcomes for level 7 are far more appropriate for new entrants for financial planning than level 5. We note, however that the proposal does not stipulate a volume of learning at the AQF level 7, opening the door for the central weakness in the current system to occur again – a race to the bottom in terms of the most efficient coverage of the content. Once again, we argue that the framework developed by FPEC provides a useful model for this with the stipulated framework to be spread across a minimum of eight equivalent level 7 or above courses, plus a range of other desired courses. Given this is incorporated in a business/commerce degree structure this also typically includes a range of other foundation business courses and the option for students to extend this (with the balance of the curriculum) in either further depth or to other related fields such as accounting, finance, economics, law, business management, psychology, etc. This leads to far from rigorous and robust foundation for new entrants.

A further observation is that we note that the document maintains the frame of minimum standards which we argue is not congruent with the overall intentions. We therefore suggest that the frame move to one of a professional standards framework and therefore looks to incorporate a broader set of issues. In this regard we also suggest that the process be altered to align regulatory activity in this regard such as the national practice exam, professional membership requirements and obligations, continuing professional development, legislative protection of terms, etc. This, we suggest, should also include a review of the Tier 1 - Tier 2/product based framework in regards to training requirements (this is discussed further below).

In addition we are simply appalled by the consultation paper introducing the notion that the national practice exam may void any need to complete training to become a financial adviser for several reasons:

1. We see this as counter to the stated intention to increase standards and quality of advice;

2. We argue this runs counter to all other established professions we are aware of;
3. It will undermine consumer perception of and confidence in the industry;
4. Given the developments on the national practice exam to date in relation to cost, funding and the complicating factor of the way RG146 is structured (re the product based approach) this would most likely lead to an approach that is narrow and unable to adequately establish skills, nor the threshold learning outcomes as per the AQF framework; and
5. Undermines all the time, effort and cost many people and businesses have put into reviewing and responding to this consultation paper.

We are aware that the national practice exam remains ASIC's approach of choice and that ASIC would prefer to remove itself from the education space entirely. While, the National Practice Exam is not being consulted on here, we feel compelled to note our objection to it given the reference in s35-41. We believe this would represent a complete backwards step in the transition of financial planning to a profession and would certainly lead to a raft of training courses seeking to provide a concentrated and narrow suite of short courses aimed specifically at passing the examination. We know of no other profession which relies on passing a knowledge based examination to be able to practice and provide professional advice to a client. We therefore suggest that for this process to have efficacy, proposals in this regard should be incorporated into a broader consultation paper (that is informed by wide ranging stakeholder engagement prior to its release) on a professional framework for financial advice in Australia. FPAF as a group and stakeholder in this stands ready to contribute in this regard.

2.2 Specific Comments

A range of specific comments are offered as follows:

- We note the various changes to the content and skills components of the RG146 framework that are proposed. While we agree with the additions made in principle, we argue that the framework should be restructured to be in the language of learning objectives and outcomes in order to articulate the content and level of learning (vis-à-vis) the AQF threshold learning outcomes. As they currently stand we suggest some of the additions are vague, imprecise, fail to recognize the required underpinning knowledge required for any meaningful study of topics (such as behavioral finance and portfolio construction), and open up the framework to wide ranging interpretation. For example use of descriptors such as "concepts in", "high-level knowledge", "financial structures" (without specifying what this refers to), "a rudimentary understanding of", "a reasonable knowledge of", "high level awareness of" and "knowledge of" are indicative of this. Interpretation of such descriptors in curriculum and assessment design will be highly subjective and risk perpetuating the "disparity" in and "disparate" standards of concern to ASIC. We note similar issues with the language used in the skills requirements and confusion between tasks, knowledge and skills, and a general lack of specificity. For example maintaining "good" records, "ensuring the client understands" and "making sure".
- We also note the little attention paid to SMSF by the framework. Given the increasing growth in use of SMSF's we suggest this should be dealt with in detail as a separate knowledge area. Indeed we

note direct property is also not in the framework, yet it is a key asset class in household asset allocations, including within super, and therefore we suggest that it should be included as a specialist knowledge area.

- In regards to the proposed system of 'regimes', we suggest that this will serve to complicate the process with yet another layer of difference across practitioners. We suggest that a transition to a degree requirement be established through one transition period rather than the proposed two stage process. If ASIC has little confidence in the training standards currently in place then the timeline could be bought forward and in the interim the register be reopened and closely reviewed to ensure programs on it contain a minimum volume of learning expected from a level 5 qualification (and as per the AQF – 1 to 2 years) and restrict the use of RPL. This would alleviate some concerns in relation to the length of training courses, the range of providers and, to some extent, standards of training.
- Given the apparent reliance on the CTA to inform this consultation paper, we request that the CTA report be released. Furthermore, given the importance of this review and need for consistency and certainty moving forward we note that the CTA did not review a majority of the specialist knowledge areas (p29) and hence no changes are recommended. We suggest that the entire framework be reviewed in order to reduce the likelihood of creep in the framework and further changes in the near future.
- In relation to the suggested timeline, we argue this is reasonable and could even be shortened to 2017 which would allow for a new entrant to commence from 'scratch' and complete a three year degree. We also note the fast track two year full time degrees are currently available in this space and the ability for credit from prior studies in both transition programs (diplomas, advanced diplomas) and career changers (where prior studies in relation to a prior career have been completed) may also shorten the length of time to complete the programs. In addition, there are a range of postgraduate courses already on offer that can be completed by those with professional experience and/or career changers in 1.5-2 years of full time study. Programs such as these have already been accredited by FPEC and meet a majority of the content and skills components of the proposals so there is already a pipeline of human capital that would meet these requirements and support the timeframe.
- In the frame of the move towards professionalisation we argue that there is a need to establish a base knowledge framework for advisers irrespective of the area of advice. We note that this is the rationale behind the move in CP212 to strengthen both generic knowledge and skills, however we argue that this does not go far enough. We suggest that this should be expanded to include the proposed Generic Knowledge, Skills, Financial Planning, Managed Funds, Insurance, Superannuation, Deposit Products, Securities, First Home Saver and Property (as per above comments). This, together with underpinning knowledge in economics, accounting, statistics, financial markets and business management would provide a robust level of knowledge and skills (at AQF level 7) commensurate with the complexities of the provision of professional personal financial advice in an advice led business. Other knowledge areas (derivatives, foreign exchange, margin lending, regulated emissions units and SMSF) then become specialist areas requiring further training/CPD if not included in the entry level qualifications.

- In relation to the classification of products as Tier 1 or Tier 2, we suggest the metric being used is somewhat concerning and suggest that the level of consumer understanding of these products should be considered. Indeed a review of PDS's in relation to these products is instructive in this regard and hence we suggest that for many consumers these products are not simpler than others, nor well understood. Hence caution should be taken in this regard.

In summary, it is argued that the move to a degree requirement for new entrants is critical to support the progression of the professionalisation agenda and to meet ASIC's aim to increase the quality of advice and consumer confidence in it. This is also in line with other professions. We suggest however, that the framework proposed needs to be revised to ensure that an adequate volume of learning underpins it and that the learning and skills outcomes are clearly articulated and congruent with AQF Level 7 threshold learning outcomes. We also suggest that a national practice exam in lieu of such a framework would not support the overall intention of the consultation paper, rather it would undermine it. In this regard we note that a curriculum and accreditation framework is already in place covering AQF level 7 which provides a robust system of generic and specific knowledge and skills in excess of RG146. Furthermore, there is already a range of programs accredited under this framework and others in the process of being so. Hence, ASIC is encouraged to work with this framework as it largely meets the intentions of this consultation paper and is already in operation.

3.0 Comments on CP215

This section is presented in two parts; first a section with general views and comments on the paper; and second a set of specific comments. The end of the paper contains a set of recommendations.

3.1 General Comments

Overall we find CP215 very concerning and essentially believe that it is unacceptable to remove the register and not propose a workable alternative. Our position is that there must be a mechanism of accreditation for education providers in this field given the issues raised above in relation to CP212, and the need to move to higher standards of education and training for financial advisers. CP215 is therefore incongruent with the aims of CP212 and in fact will, we suggest, undermine the process and steps being taken to improve standards and perpetuate the race to the bottom re the length and depth of qualifications. This will therefore move financial planning further away from the established norms of a profession rather than towards them. We therefore reject outright the assertion of a market determined, consumer beware model of education accreditation in this field.

Having said the above, we note a key driver of this consultation paper is that ASIC wants to remove itself from the education space altogether and sees this as not part of its brief or expertise. While we accept this point, we do not believe this is grounds for ASIC to essentially walk away from its obligations in this regard. Given the system of regulation we have in place, where there is (1)no requirement or norms in relation to professional association membership; (2) significant variation in the operations of the professional bodies; and (3) significant variation in the mix of training, experience and ongoing

professional development of practitioners in this field, we suggest it is incumbent on ASIC to find a solution for the accreditation of training programs in this field.

We conclude that if no workable alternative is found leading to no independent verification of qualifications, then the stated goals of ASIC (and parts of the industry) in relation to professionalisation and improving the quality of advice will be undermined. As noted above we also do not see the national practice exam as a solution to this. We therefore suggest that ASIC move to create a high level principles based framework from which the professional associations and the education providers can operate to deliver the desired outcomes. Such an approach would be more in line with other professions and build on the work already being done in the industry in regards to the development of a professional standards framework. In terms of the education element of this, we note once again that the FPEC is already accrediting providers and programs that offer degree level and above programs in financial planning using a rigorous and robust system that incorporates academic, industry and professional body representatives in this process. Indeed the process is comparable to program and provider accreditations in other established professions such as accounting. The outcome of this process is a period of accreditation, reporting obligations and a register of accredited programs. Should the move to degree level as per CP212 be operationalised then we contend that the FPEC process is a sound starting point to build from in relation to independent accreditation of programs. It also has the added strength of engaging a variety of stakeholders in the process.

3.2 Specific Comments

Several specific comments are also offered as follows:

- The compliance costs for universities are likely to be significant due to the numbers of students involved and the likely requirement to adjust systems to automate and manage the certification process on graduation. In addition, students and employers often require formal certification prior to completion of the entire program (where the student has completed the set of subjects for a particular knowledge area) and hence manual transcript review and certification may be required for this. This is likely to have significant and ongoing resource implications.
- The resultant system of individual institutions providing statements of attainment to students will be a distributed and inefficient system that is likely to compound the existing level of confusion in relation to RG146 and obligations of stakeholders in relation to determining adviser competence. We note that should a degree requirement with and central accreditation process be implemented these issues will be substantially mitigated as will the costs referred to above.
- The role of TEQSA in this process is not clear or well represented. Our understanding is that TEQSA processes will not audit qualifications for the level of granularity implied and not for compliance with a third party curriculum requirement such as RG146. Indeed we are not aware of any other professions that rely on TEQSA for this purpose, rather for the overall integrity and operation of the institution and its policy frameworks, governance and risk management.

In summary, it is argued that removal of the register without a viable alternative scheme for accreditation of providers and programs is not acceptable, not in line with the goals of CP212, not in line with professional standards frameworks in other professions and will impose significant ongoing costs to institutions while potentially further confusing students and complicating the processes for licensees. We suggest however, that if considered in conjunction with the move to AQF level 7 (and assuming this is operationalised with a reasonable volume of learning) then much of this concern can be alleviated if a robust accreditation process similar to that which is already in place with the FPEC is established. We therefore once again suggest that ASIC move to work with the FPEC and professional bodies to pursue such a framework.

4.0 Recommendations

Overall, the move to a professional standards framework in line with other similar professions is seen as critical for the financial advice industry re improving the quality of advice and consumer confidence and participation. Therefore, we support the move to AQF Level 7, however argue that this must be set in a robust educational framework including knowledge, skills and outcomes that aligns with AQF outcomes (at level 7 and above) and including a sufficient volume of learning to achieve these outcomes. This should also include a framework for accreditation of providers and programs that comply with this framework. With this view in mind we propose:

1. ASIC establish a multi-stakeholder working party (including the education community) to review the consultation paper and ensure it is building on and supporting existing professional frameworks. This should incorporate the two consultation papers in question here and the concept of a national practice exam. Such a process should also look for devices to improve the participation in and ownership of this by the industry and the professional associations.
2. We recommend the decoupling of the issues of requirements for new entrants, existing planners and continuing professional development to allow progress to be made on new entrants and CPD for existing planners in the near term so that the diversity of standards and requirements is no further perpetuated. Accordingly we offer the following:
 - a. In regard to new entrants, we propose that a structure for AQF Level 7 programs in financial planning are already in place with the FPEC framework that was developed by multiple stakeholders, has undergone a consultation process and, in our view, meets and in many cases exceeds the proposed rg146 framework. We recommend that ASIC works with the FPAF and FPEC to utilise it as an industry wide framework for future new entrants to financial planning starting on 1/1/2018 at the latest. This would include a process for dialogue and engagement with FPAF and FPEC by ASIC in relation to the further development and monitoring of the curriculum and accreditation framework.
 - b. In relation to existing planners, we propose that a further substantial piece of work is required to establish a framework that respects and values the formal training completed to date, the experience and expertise of advisers, and ongoing CPD undertaken while balancing the needs to increase standards, quality of advice and consumer confidence. We also note the complexity in regards to the substantial fragmentation that the legacy issues, the

current low minimum standards framework and the diversity in the professional standards framework across the sector creates. We also note issues of cost and time that may relate to this and argue that a satisfactory outcome can only be reached through a meaningful process of dialogue between the various parties. Finally, we also believe that the market will influence this as individual advisers and licensees increasingly place value and emphasis on high levels of education, training, certification, CPD and professional standards. This is a complex task that requires, in our view, a multi-stakeholder approach to inform a consultation process.

- c. In relation to CPD, we recommend that a system of regulation that requires/promotes membership of such organisations by the individual professionals who manage this as a requirement of ongoing membership. We argue that professional bodies are best positioned to develop and administer these processes as per most of the other professions as this places emphasis on the obligations of the individual professional in addition to those of their employer. Once again we note that this is already in place in some associations.
3. We recommend that the regimes approach be dropped and a single transition pathway to a degree in financial planning be adopted.
4. We recommend that the proposed requirements for generic knowledge, skills, financial planning, insurance, superannuation, managed funds and securities, FHS and deposit products and an expanded underpinning knowledge base be merged to create the foundation knowledge requirements for all advisers. This will form the basis of the AQF Level 7 qualification and that this volume of learning be the equivalent of at least eight AQF level 7 or above courses. Other knowledge areas will be examined as part of this process to determine if they are incorporated or developed into post-qualification specialist areas requiring further training/certification.
5. We recommend ASIC incorporate consideration of the national practice exam into this framework to provide efficacy and effectiveness to the process. It is our position that a national practice exam in lieu of a robust high level curriculum and accreditation process for new entrants will be a significant backwards step relative to the stated goals of ASIC and many in the industry.
6. We recommend ASIC release the CTA report.
7. We recommend ASIC moves the context of the process from minimum standards to a professional standards framework (including attributes of a profession in addition to educational entry standards) and work to engage industry in this process within an acceptable regulatory frame to promote the development of a financial planning profession.
8. We recommend ASIC maintain the Training Register for historical purposes and find an alternative system to replace it. We recommend that this be merged with the resultant framework for RG146 in relation to degree level studies which should then be accredited by either professional associations or a related body such as FPEC. It is our preference that one joint accreditation process be established for new entrant programs to create single pathway to the profession. This will avoid duplication, cost and inefficiencies while increasing clarity and consistency for all stakeholders. In this regard FPEC should be the starting point and FPAF is prepared and able to assist in the development of this process and system.

References:

Baker, P. 2013, "Professionalising Financial Planning: The Efficacy of a National Practice Exam ", Unpublished thesis, Griffith University.

Financial Planning Education Council, 2012, "Australian Higher Education Curriculum and Accreditation Framework in Financial Planning".

Submission Details:

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